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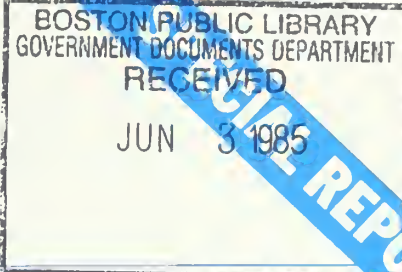
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Boston Municipal Research Bureau



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SCOPE OF BOSTON'S FISCAL PROBLEM

BMR 83 85-2

Part II Fiscal 1986

On April 10, 1985, Mayor Flynn submitted his fiscal 1986 budget recommendations to the Boston City Council. The \$1.06 billion proposal shows general fund expenditures exceeding available revenues by \$55.1 million. The Bureau has reviewed the Mayor's plan and generally found it to be a reasonable estimate of the City's budget situation next year, given the service levels recommended. Based on some differing assumptions and no change in operations, the Bureau estimates the budgetary shortfall for fiscal 1986 will be approximately \$51.7 million. Large shortfalls are also projected for fiscal 1987 and fiscal 1988. Boston should continue to improve service efficiencies, increase own-source revenues, reduce personnel levels and better allocate resources. These actions alone will not permanently bridge the gap between available revenues and necessary expenditures. Additional State support through a combination of cost assumptions and the provision of new revenue sources will be required.

Boston's \$51.7 million shortfall consists of two parts: 1) a short-term problem represented by the fiscal 1985 deficit that must be raised in next year's tax rate and 2) a long-term problem of recurring operating revenues insufficient to support annual operating expenditures. Further, the City faces contingencies such as the loss of federal revenue sharing, reduced reimbursements for free hospital care and utility abatements, all of which, while not unique to Boston, would affect the City the hardest.

To permanently address the City's existing fiscal problem, the State should approve a combination of cost assumptions and new revenue sources totaling \$40 million this year. The City must help itself by eliminating next year's deficit balance of \$11.7 million through the reduction of proposed budgets and identification of additional local revenues. The Bureau again recommends the establishment of a reserve account and the strengthening of expenditure controls. Should Boston receive less State support than recommended, the Mayor will have to reduce the budget proposals to stay within the limit of available resources, whatever the amount.

Budgetary and Operating Gaps

The Bureau's \$51.7 million shortfall estimate is a budgetary figure produced by comparing all general fund revenue estimates against all budgeted expenditures. Included in the estimate are what should be onetime expenses such as this year's appropriation deficit (\$23.0 million) and revenue deficit (\$6.4 million) as well as recurring non-operational costs such as overlay deficits (\$15 million). The latter should be phased-out as assessments improve and prior year utility and other abatements are paid. Nonrecurring revenues, such as proceeds from the sale of garage properties, are also included. In fiscal 1986, 59% of the budgetary shortfall will be caused by nonrecurring expenditures exceeding onetime revenues by \$30.7 million. Excluding the nonrecurring items, expenditures for current operations will exceed operating revenues by \$21.0 million. However, overlay deficit costs will add to the recurring operating problem for the next few years.

Spending Estimates

The city, hospital and county departmental budgets submitted by the Mayor for fiscal 1986 represent a more realistic request for spending than the amounts appropriated this year. The total request for the three budgets is \$473.0 million, an increase of \$38.2 million or 8.8% over this year's appropriation and \$18.2 million or 4.0% above the City's projected expenditures for this year. Budget items that were underestimated or omitted this year are recommended at higher levels for next year. For example, in its last report the Bureau projected deficits this year in the Execution of Courts (\$5 million), Fire Department (\$3.7 million) and County Departmental (\$3.8 million) accounts. Budget increases proposed for these accounts are \$4.0 million, \$3.0 million and \$4.0 million respectively.

The inadequate funding of collective bargaining increases has been a prime cause of deficits in past years. Most departmental budgets recommended for next year appear, in the aggregate, to be sufficient to allow for salary increases. The planned reduction of 109 city departmental employees and 40 hospital employees will be an important factor in the availability of sufficient funds.

The Bureau has suggested a School Department budget of \$268 million. This represents a 4.3% increase over this year's expected spending level. The School Committee has approved a fiscal 1986 budget of \$271.4 million and the Mayor has recommended \$269 million. While the original budget recommendation has been cut, suggestions to reduce the budget that have not been adopted by the School Committee indicate that a \$268 million budget can be reached with little impact on educational programs.

The budgets recommended next year for the City's major spending programs represent increments over this year's anticipated spending and no change in the level or method of service delivery. The budgets do not necessarily reflect the proper amount of resources needed to efficiently deliver basic services. Consequently, departments such as Parks and Recreation are underfunded and others, such as Fire, are overfunded. An independent analysis of major departmental operations would likely identify steps to improve productivity and generate savings. The savings could reduce overall spending as well as free up resources for services not adequately funded.

The Bureau agrees, in general, with the City's estimates for fixed charges which represent about 30% of total expenditures. These are essentially mandatory expenses for such items as pensions, debt service, the MBTA, reserves for abatements and prior year operating deficits. The Bureau's \$84 million debt service estimate is \$2 million less than the City's due to differing assumptions regarding the interest rate Boston would pay on its planned \$100 million issue of revenue anticipation notes using a letter of credit. The overlay deficit account of \$15 million contains \$5 million to be held as a nonspecific reserve. With this amount the City will have set aside \$28.6 million for potential utility abatements.

Revenue Estimates

Total operating revenues available in fiscal 1986 will increase by \$12.3 million or 1.2% over this year's actuals. Boston's two major revenue sources, state aid and the property tax, will increase by a total of \$44.4 million. The property tax levy will increase by about \$23.9 million, while state aid will rise by \$20.5 million. However, that growth will be offset by the loss of \$40.6 million in onetime revenues.

This year the City is relying on \$54.3 million of nonrecurring revenues, primarily from the sale of garages, past due State reimbursements and a School Department surplus from fiscal 1984. Next year the Administration is projecting use of \$12.7 million of onetime revenues, one million less than assumed by the Bureau. The largest component of these funds is \$9 million of excess pension earnings the City will use to defray its pension obligations. Chapter 661 of the Acts of 1983 provides for a three year phaseout of the application of excess pension investment income to reduce operating pension costs. The total amount available to Boston for next year is \$18 million. Legislation is currently being prepared that would authorize the State to assume public pension cost increases beyond the first 2 1/2% increase each year for those retirement systems joining

the Commonwealth's Pension Reserve Investment Trust ("PRIT"). Until this legislation is enacted the Bureau would agree that no more than half of the excess earnings should be used to reduce pension costs. Also included as onetime revenue is \$3.7 million from the planned sale of additional property to the developer of International Place. The Bureau estimates an additional million dollars will be available for operations from the City's Street Cut Deposit account.

Estimated departmental receipts for next year appear reasonable, reflecting historical trends, actual collections this year, event-driven reductions and changes in the fees structure. Boston has incurred revenue deficits in each of the last four years; however, next year's estimates can be realized with continued effort and strong enforcement.

FISCAL YEAR 1986 SHORTFALL ESTIMATE

WHERE THE MONEY GOES	Fiscal 1985 Appropriation	Fiscal 1985 Estimates	Estimated Fiscal 1986 Appropriation	Change FY85 Approp.- FY86 Est. Approp.	Percent Change 1985App.- 1986Est.
Departmental Appropriations	\$692,187,719	\$717,463,474	\$742,304,684	\$50,116,965	7.24%
City	310,619,159	321,200,000	327,067,861	16,448,702	5.30%
County	17,505,086	21,300,000	21,536,823	4,031,737	23.03%
Hospital	109,001,102	117,901,102	125,700,000	16,698,898	15.32%
School	255,062,372	257,062,372	268,000,000	12,937,628	5.07%
Fixed Charges	\$209,412,607	\$209,135,293	\$231,843,300	\$22,430,693	10.71%
Contributory Pensions	113,837,357	113,837,357	125,843,300	12,005,943	10.55%
Debt Service	77,398,699	77,121,385	84,000,000	6,601,301	8.53%
Overlay Reserve	18,176,551	18,176,551	22,000,000	3,823,449	21.04%
Metropolitan & State Assess.	\$49,903,343	\$49,903,343	\$45,988,147	(\$3,915,196)	-7.85%
Total Recurring Expenditures	\$951,503,669	\$976,502,110	\$1,020,136,131	\$68,632,462	7.21%
Deficit Approp.-Prior Year	\$53,435,436	\$53,435,436	\$44,398,000	(\$9,037,436)	-16.91%
Overlay Deficit	13,952,191	13,952,191	15,000,000	1,047,809	7.51%
Revenue Deficit	23,866,868	23,866,868	6,400,000	(17,466,868)	-73.18%
Approp. Deficit	15,616,377	15,616,377	22,998,000	7,381,623	47.27%
Grand Total Expenditures	\$1,004,939,105	\$1,029,937,546	\$1,064,534,131	\$59,595,026	5.93%
WHERE THE MONEY COMES FROM					
Departmental Revenue	\$221,525,719	\$218,001,141	\$225,488,820	\$3,963,101	1.79%
City	99,382,154	97,495,752	101,019,588	1,637,434	1.65%
Hospitals	115,248,000	115,248,000	118,700,000	3,452,000	3.00%
County/Court Rentals	6,895,565	5,257,389	5,769,232	(1,126,333)	-16.33%
State Revenue	337,086,359	337,086,359	357,558,840	20,472,481	6.07%
Federal Revenue Sharing	18,000,000	18,000,000	18,000,000	0	0.00%
Motor Vehicle Excise Tax	11,000,000	10,000,000	11,000,000	0	0.00%
Total Non-Prop. Tax Rev.	\$587,612,078	\$583,087,500	\$612,047,660	\$24,435,582	4.16%
Property Tax Revenue	\$363,222,216	\$363,222,216	\$387,100,000	\$23,877,784	6.57%
Total Recurring Revenue	\$950,834,294	\$946,309,716	\$999,147,660	\$48,313,366	5.08%
Total Non-Recurring Revenue	\$54,104,811	\$54,259,811	\$13,700,000	(\$40,404,811)	-74.68%
Grand Total Revenues	\$1,004,939,105	\$1,000,569,527	\$1,012,847,660	\$7,908,555	0.79%
TOTAL RECURRING IMBALANCE	(\$669,375)	(\$30,192,394)	(\$20,988,471)		
GRAND TOTAL IMBALANCE	\$0	(\$29,368,019)	(\$51,686,471)		

Conclusions and Recommendations

Boston faces a gap between expenditures and available revenues of \$51.7 million in fiscal 1986 as a result of funding this year's deficit and recurring operating expenditures exceeding operating revenues. This year's deficit should be a short-term problem that will not be repeated next year. However, Bureau projections for fiscal years 1987 and

1988 indicate large shortfalls between recurring revenues and expenditures without permanent State support. To address this problem the Bureau recommends the following:

1. To solve the problem of operating expenditures exceeding recurring revenues in fiscal 1986 and future years, a combination of cost assumptions and new revenue sources totaling \$40 million should be approved by the State this year. The City must help itself by eliminating next year's deficit balance of \$11.7 million through the reduction of proposed budgets and the identification of additional local revenues. This amount represents 1.5% of the total departmental budget recommended for fiscal 1986. Prior year reserves (unencumbered appropriation balances), which were not included in the City's fiscal 1986 budget plan, could generate \$3-6 million of additional revenue.

2. Among the options available to the State to provide additional support of \$40 million to Boston, the Bureau recommends consideration of cost assumption of Suffolk County Jail and House of Correction services (\$15 million). In addition, the State should consider approval of recurring revenue sources on a local option basis, such as an increase in the existing hotel-motel excise (\$9 million) and a jet fuel tax (\$7-10 million). Further study of the jet fuel tax is required to fully assess its revenue, economic and safety consequences over time. Inequities in the State-Boston fiscal relationship present other options. Boston pays a disproportionate amount of the local share of the MBTA deficit because of the manner in which riders are counted. The formula should be revised with the State assuming the difference (\$5-8 million). Legislation now being developed to reform the Commonwealth's public pension system would provide a substantial financial benefit to Boston and all other municipalities in Massachusetts, especially if a strong disability section is included.

3. Contingencies such as the loss of federal revenue sharing, reduction of free hospital care reimbursements and utility abatements may occur in the near future and are not addressed by these recommendations. If adequate funding for these contingencies, which are not unique to Boston, is not provided by the State, additional cost assumptions and new revenue sources will be needed for the City. Establishment of a Local Aid Stabilization Fund is being considered by the Legislature. One purpose of the Fund would be to enable the State to respond to the loss of federal revenue sharing.

4. To help insure that Boston does not incur operating deficits in fiscal 1986 and future years, the Bureau repeats its recommendations made in its April 23, 1985, Special Report urging the establishment of a reserve account and the strengthening of existing expenditure controls.

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